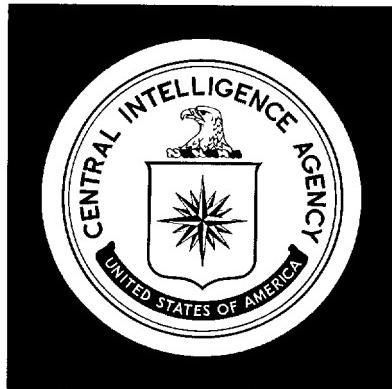


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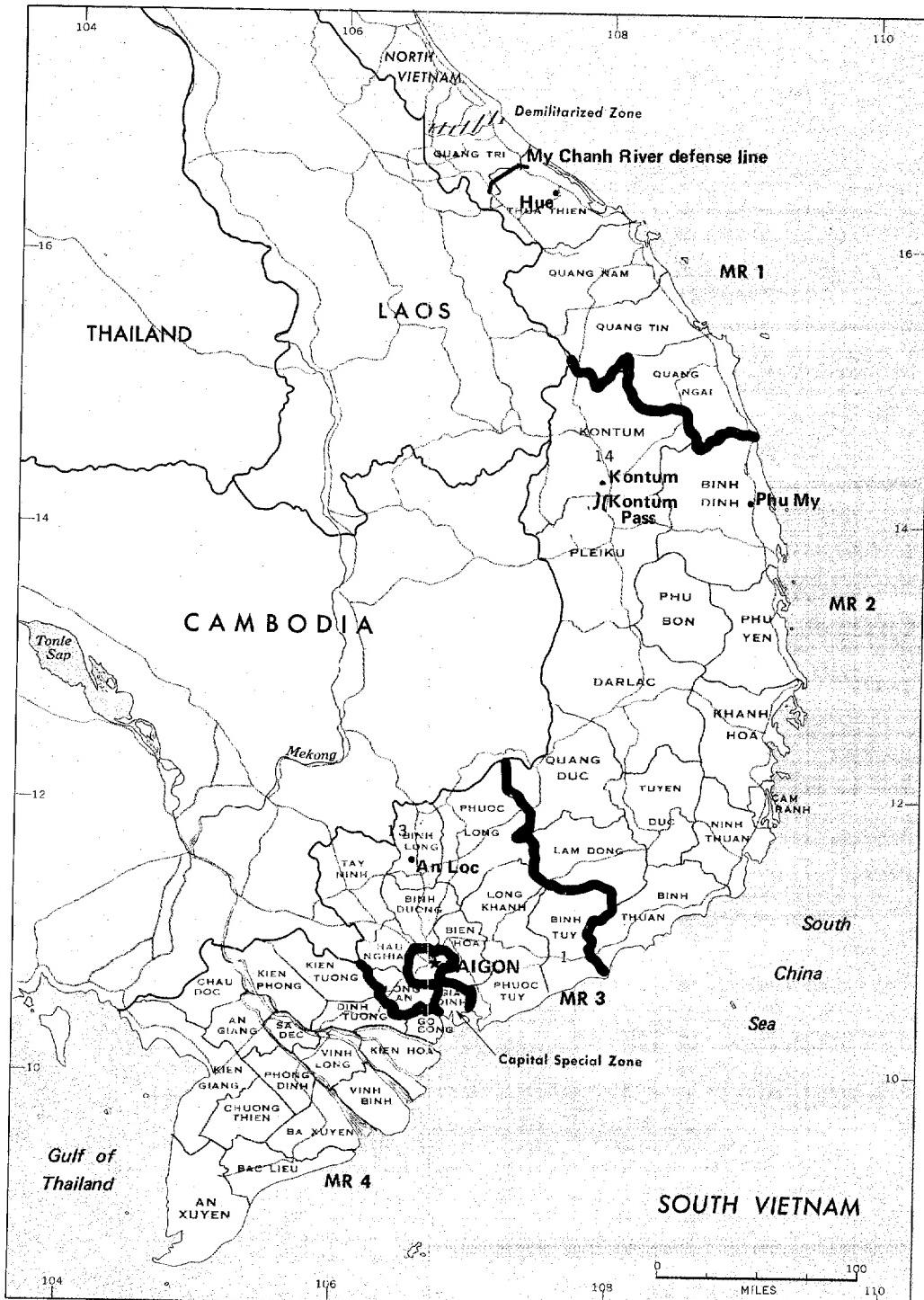
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VIETNAM: The Communists are pressing hard against the government's My Chanh River defense line north of Hue.

Heavy action has been reported in the western sector of the line manned by South Vietnamese airborne troops. Camp Evans, the government's northernmost strongpoint, still is under heavy rocket and artillery fire and its artillery ammunition depot reportedly has been destroyed.

Farther south, along the central coast, the Communists are continuing light mortar attacks and ground probes in Phu My District of Binh Dinh Province, but government forces have reoccupied a position they had abandoned south of the district town. Elsewhere, South Vietnamese forces are still meeting resistance in the area of the Kontum Pass and to the south of An Loc. No new action has been reported from the delta.

* * * *

Although Communist supply activity in the Laos panhandle is currently at very low levels as a result of seasonal rains, aerial photography indicates that large quantities of supplies are moving through southern North Vietnam, presumably to support Communist military action in northern South Vietnam. A comparison of photography taken on 11 June with that taken earlier in March and May indicates that there has been a heavy turnover of supplies since March at a large storage area located about five miles north of the DMZ. Aerial observers also report moderate to heavy truck traffic across the DMZ. Farther south, large quantities of supplies have been stockpiled in southern Laos and there are signs of extensive activity--including the use of waterways--to move supplies into southern South Vietnam and Cambodia.

(continued)

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North Vietnam's press spokesman in Paris is seeking to counter speculation that Hanoi might be willing to consider a cease-fire on US terms. [redacted]

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[redacted] Nguyen Thanh Le told a select group of newsmen on 21 June that there is no possibility of a cease-fire in the near future outside the framework of the Viet Cong seven-point proposal. He also reportedly discounted the sincerity of the latest US troop withdrawal announcement and insisted that there are still 160,000 US soldiers in Vietnam. [redacted]

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CHINA: Peking leaders have apparently launched renewed efforts to resolve the difficult political problems that continue to plague the regime.

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[REDACTED]
[REDACTED] recent absences of Chinese leaders from public view were due to a series of high-level leadership meetings, not to Mao Tse-tung's health.

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[REDACTED]
[REDACTED] rumors were circulating among low-level government officials and journalists that a party central committee meeting was in progress.

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[REDACTED]
[REDACTED] Most provincial party leaders have been out of sight since mid-May. Furthermore, in the past few weeks there have been several gaps in the public appearance patterns of many normally active central leaders, including the ubiquitous Chou En-lai.

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There is no shortage of difficult and long-standing problems confronting the leadership, particularly on the domestic front. Foremost among the problems that could be the subjects of high-level meetings are: the need to fill the many vacant positions in top party and military councils, the need to establish a new working relationship between the reconstructed party apparatus and the military, and the need to create a mechanism for transferring power after Mao's passing.

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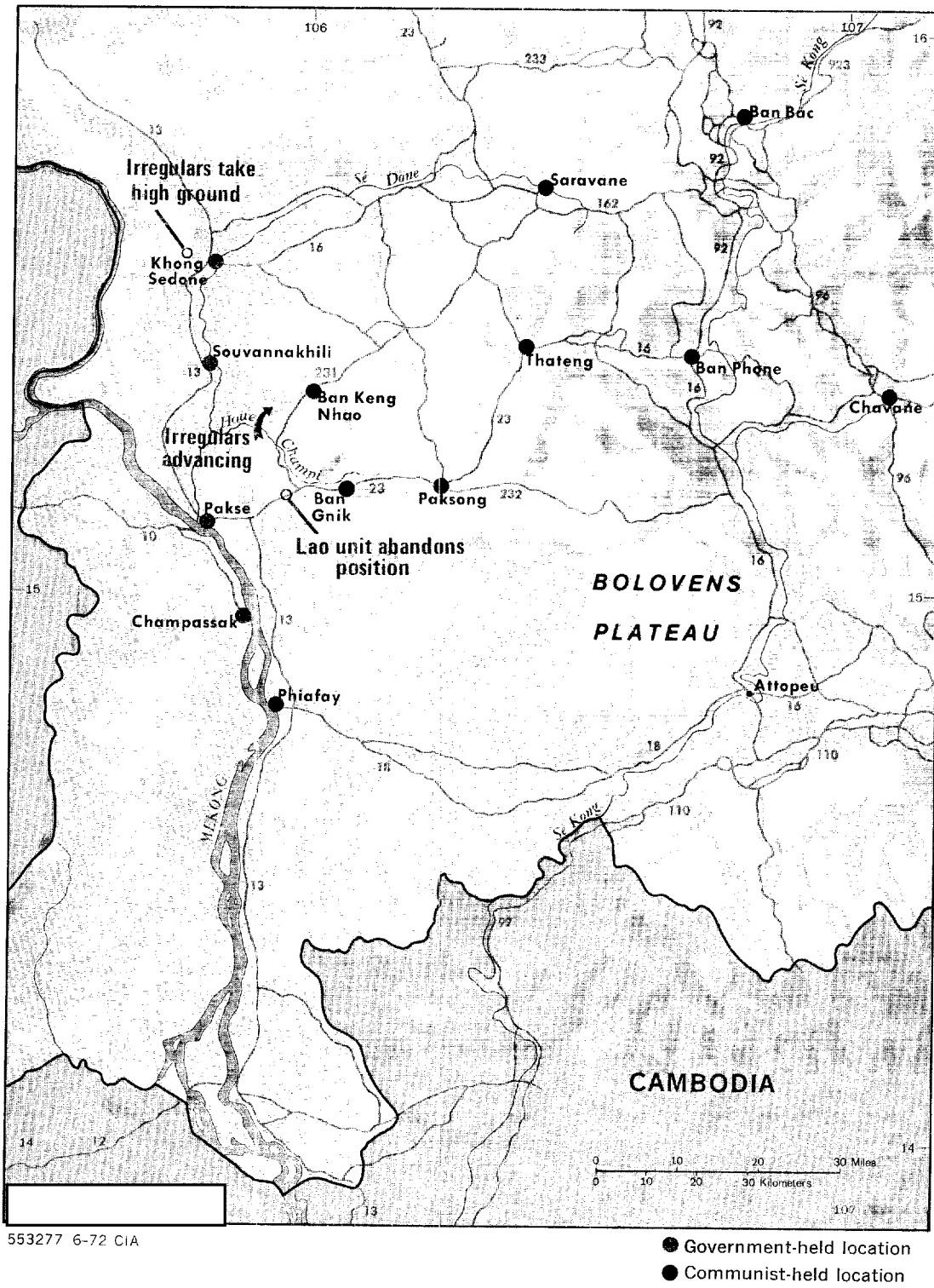
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LAOS: Government forces in south Laos are gradually regaining control over the Khong Sedone area despite some determined enemy resistance.

Two irregular battalions occupied the main part of Khong Sedone on 18 June, while other irregular troops drove North Vietnamese units from their hilltop positions west of the town on 21 June. Communist troops still occupy some positions near the town and are shelling the government forces.

Farther south, irregular units are also making some progress in their efforts to clear enemy forces from the western edge of the Bolovens Plateau. The irregulars were attacked on 21 June, however, and one Lao Army battalion recently abandoned its position when attacked by a North Vietnamese company. The government has several battalions in reserve to thwart a Communist push west on Route 23.

The success thus far of the irregular battalions at Khong Sedone and on the edge of the Bolovens will ease fears in Pakse of a Communist assault on the city.

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UK: Heavy speculation against sterling continued yesterday despite an increase in Britain's bank rate from five to six percent.

The Bank of England and other European banks were required to support the pound again yesterday, to uphold Britain's participation in the EC agreement to maintain a maximum exchange rate band of 2.25 percent. The bank rate increase does not appear to have stemmed the outflow of funds as intended, but has thus far served more to spotlight the weakness of sterling.

Since the speculative flurry began on 15 June, official intervention, including both sales of foreign exchange by the Bank of England and purchases by other European central banks, has exceeded US\$1.8 billion. One significant side effect of the support operations by European banks has been to strengthen the international exchange value of the US dollar as Europe's strongest currencies are offered for sale in exchange for the weakening pound. Another is that the EC agreement has shown signs of surviving its severest test without undue strain.

Britain will be able to resist speculative pressures for a devaluation even if the attack on sterling persists. Official reserves at the end of May were a record US\$7.2 billion and Britain's borrowing position with the International Monetary Fund was fully reconstituted in April with the repayment of its last outstanding debt. Moreover, the Bank of England can draw upon a US\$2-billion short-term credit from the EC. Nevertheless, in the longer run, the pound will be increasingly vulnerable to England's growing inflation and deteriorating trade balance.

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EUROPEAN COMMUNITIES - ASEAN: The creation of a permanent consultative arrangement between the EC and the Association of Southeast Asian Nations (ASEAN)--Thailand, Malaysia, Singapore, Indonesia, and the Philippines--may mark the beginning of greater European economic involvement in Southeast Asia.

ASEAN representatives and the EC Commission approved the arrangement in Brussels last week. The meeting did not get into details about future EC-ASEAN relations, but subsequent discussion will cover commercial development, including the impact of generalized preferences and the community's enlargement. The possibility of technical assistance for regional integration will also be studied.

Among the ASEAN countries, Malaysia and Singapore are covered by the EC's declaration of intent to ease the trading problems that the Commonwealth countries will have because of Britain's accession to the community. The other ASEAN members would also like improved access to the community market, especially with regard to certain tropical products competitive with those of the EC's African associates. The EC has excluded any idea of a preferential trade arrangement.

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ISRAEL: Prime Minister Meir may face a cabinet crisis over proposed civil marriage legislation when it is introduced in the Knesset early next month.

The legislation, proposed by the tiny Independent Liberal Party--a member of the ruling coalition--would permit civil marriages in certain cases. At present only marriages performed by Orthodox rabbis are recognized by law. The bill is popular with the largely secular-minded Israeli population, and while the Liberals have introduced it to ease some hardship cases, they also hope to make some gain over the issue in next year's elections.

Last week, Mrs. Meir warned the Liberals, who hold only four of 120 seats in the Knesset, that their action was a breach of the coalition agreement and if they persisted, she would force them out. The key party in Mrs. Meir's coalition, the National Religious Party, which holds 12 seats, strongly opposes the civil marriage bill. Mrs. Meir could thus scorn Liberal support and still have a majority.

Mrs. Meir's problems were complicated on 21 June, when the MAPAM faction in her own Labor Party Alignment threatened to defect and support the bill. MAPAM, which holds seven Knesset seats, voted in party caucus to support the marriage bill, although it pressed the Liberals to postpone the Knesset vote pending further discussion by the MAPAM party bureau. Mrs. Meir has threatened to resign if MAPAM supports the bill, and the cabinet has invoked coalition discipline, which would automatically require MAPAM to withdraw from the government if it rejects Mrs. Meir's demands. Without MAPAM Mrs. Meir would have only a one-vote majority. She would probably resign rather than govern with such a thin majority.

The Israelis usually work out an accommodation in such battles, but in view of the coming elections and the sensitivity of the religious issue, compromise may be more difficult this time.

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NOTES

JAPAN-CHINA: Japan's two largest trading firms will follow the country's other major commercial companies in seeking to establish direct trade with Peking. Mitsubishi Shoji and Mitsui Bussan have been pressured by affiliates, which are interested in selling whole plants to Peking. The companies will accept in principle Chou-En lai's conditions for trade but feel the Chinese will be flexible enough that this will not disrupt their extensive economic dealings with Taiwan and South Korea. The move anticipates closer Sino-Japanese relations in the post-Sato period as well as possible competition from US firms in the China market.

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NATIONALIST CHINA: The country's sixth four-year plan (1973-76) calls for real gross national product (GNP) to rise by some 9.5 percent annually, only slightly below the rate achieved during the past decade. The export sector is to remain the dominant factor in economic growth; the plan calls for exports to account for almost half of GNP by 1976, compared with about a third last year. In past years, Nationalist China's actual economic growth generally exceeded official targets. Although the momentum generated by recent rapid growth is likely to spur the economy for a few years, any long-range economic projection is risky because of uncertainty over the country's future international status. In particular, much will depend on continued access to foreign markets and capital.

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